Irish Life

DEFINED CONTRIBUTION MASTER TRUSTS

IRISH LIFE RESPONSE TO CONSULTATION PAPER ISSUED BY THE PENSIONS AUTHORITY

5 OCT 2018

REGULATION OF DEFINED CONTRIBUTION MASTER TRUSTS

CONSULTATION DOCUMENT ISSUED BY THE PENSIONS AUTHORITY

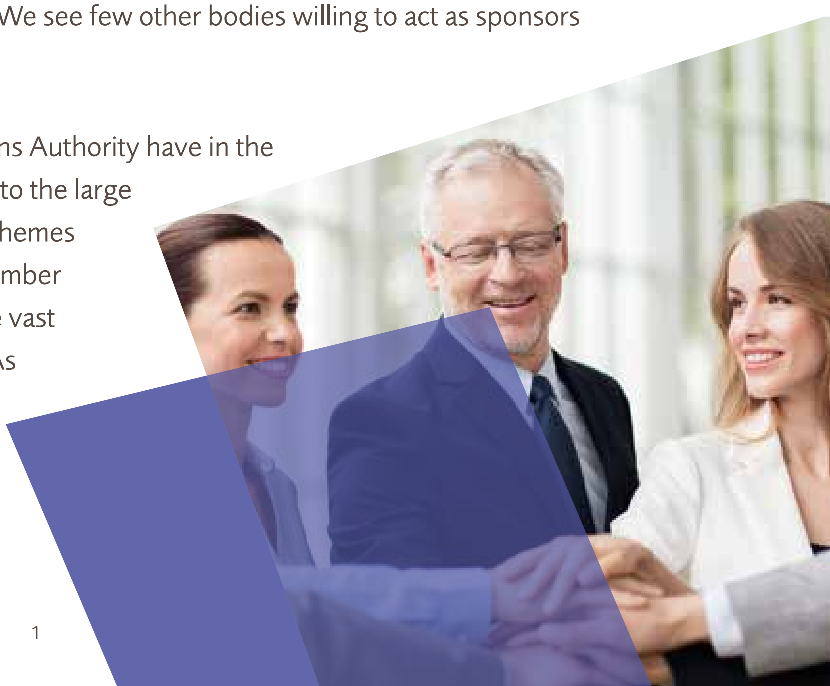
Irish Life Overview

We welcome the consultation document issued by the Pensions Authority on the Regulation of Defined Contribution master trusts. We have noted the recent trends in other markets (the UK in particular) towards mater trusts and believe they have the potential to play an important role in the proper governance and functioning of a mature, successful pension system. We believe regulations in respect of master trusts (MTs) are timely to bring greater clarity to this potentially large growth area.

Concerning group schemes, Irish Life currently administers over 2,600 Defined Contribution and AVC pension schemes with membership in excess of 180,000. The split of Corporate trustees and Individuals trustees per scheme is approximately 80% Corporate and 20% Individual. Any proposal to reduce the number of trusts in existence and being set up in the future is welcome, although the sheer number of trusts in itself should not be a primary concern. Rather, the level and quality of governance should be the focus. We see master trusts as another pension vehicle here with advantages and disadvantages that need to be assessed case by case. They should not be viewed as a panacea.

We have some concerns regarding the viability of any business case for sponsors to set up a master trusts in light of some of the suggestions in the paper. We deal with these in the detailed sections. Under the suggestions outlined, we would see few commercial organisations willing to set up master trusts given the risks involved. We see few other bodies willing to act as sponsors other than commercial entities.

With regard to 1 person schemes, the Pensions Authority have in the past mentioned master trust as an alternative to the large number of one-member company pension schemes currently in existence. In considering one-member schemes, it is important to remember that the vast majority are insured one-member schemes. As insured schemes, these are administered



on a bulk scale by a regulated entity. As such, compared specifically with insured one-member schemes, there is considerable risk that using a master trust to replace the current structure would actually increase costs without improving member outcome or protection. We urge deeper consideration of these issues.

As the Pensions Authority are aware, one-member insured schemes are legitimately set up by employers because tax legislation dictates that this is a more efficient structure than PRSAs. If the Pensions Authority have concerns about the number of one-member insured schemes (and we do not believe the Pensions Authority should have any such concern) then this should be considered as part of the current simplification and reform process, by the equalisation of contribution, tax relief and benefit rules across trust and contract pension structures. We explore this further in our response to the pension simplification consultation of the IPRTG.

Our comments on the different sections of the Consultation Document are as follows.

2 RISKS PARTICULAR TO MASTER TRUSTS

It is the Authority's view that the following features of master trusts create additional risks to good member outcomes:

- Master trusts are likely to be bigger than traditional single employer occupational pension schemes, and therefore any problems that arise in a master trust will affect more people.
- Because master trusts are multi-employer, the administration is more complicated by virtue of the need to collect contributions and data from multiple sources.
- Master trusts are in effect third party financial institutions which may be run for profit or have close connections with for profit entities. This may create conflicts of interest that do not arise with single employer schemes. For instance in some cases the master trust may have been set up by an existing service provider of pension schemes.
- Employers are much less involved in master trusts than they would be in single employer schemes. This removes both a level of informal oversight of the scheme and an important channel of communication between members and trustees.

2. RISKS PARTICULAR TO MASTER TRUSTS

We agree there are specific risks associated with MTs that merit special attention. We would make the following observations:

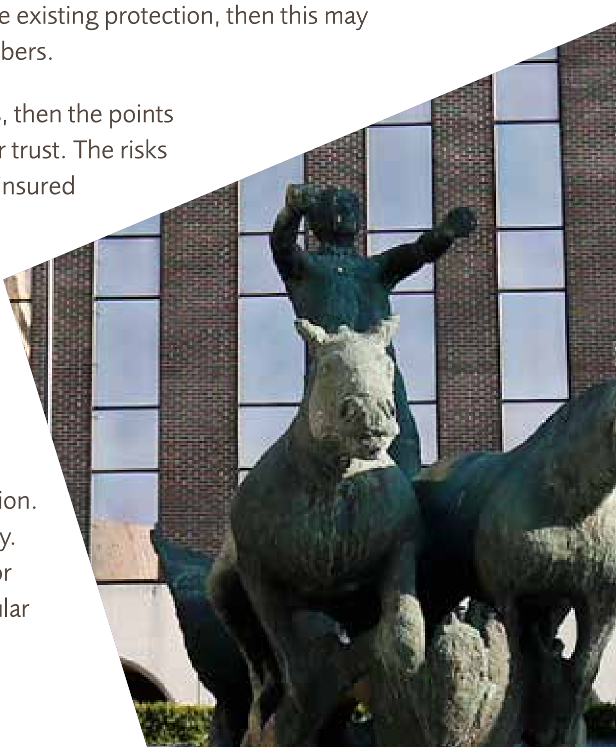
a) Any conflict of interest will be managed by having Fit & Proper independent trustees. Master trusts which are profitable and financially sustainable increase security for the members of the master trust. Having a financially sustainable master trust should allow for future developments of the master trust including large IT projects and better communication for members.

b) If an employer chooses a master trust for the scheme, we would not necessarily see costs reducing for members, as the governance requirements for master trusts will be much more rigorous than those for smaller pension schemes and may offset any benefits of scale.

c) It is also important to consider the regulations and governance that already applies to insured pension arrangements. If the master trust regulations unnecessarily duplicate existing protection, then this may result in additional cost with no improvement in protection for members.

d) If master trust is compared with one-member insured arrangements, then the points raised in the consultation are not additional risks particular to master trust. The risks identified could equally be used to describe the current position of insured one-member schemes. Life offices administer one-member insured schemes across multiple employers. The administration therefore requires the collection of contributions and data from multiple sources.

e) Single employer schemes, of the size that the Pensions Authority envisages will use a master trust, are typically administered by Life Offices and employers have little or no engagement beyond establishing the scheme and setting the level of employer contribution. As such, these schemes are already typically run by a for profit entity. However, many consumer products and services are provided by for profit entities, and we are unsure why this is highlighted as a particular risk here, particularly given the competitive nature of this market.



3 MASTER TRUST REQUIREMENTS – TRUSTEE

The Authority believes that DC master trusts must be capitalised to provide security for members (see section 5). To make this possible, the trustee should be structured as a designated activity company. In addition, recognising that DC master trusts may be run on a commercial basis, the majority of the directors of the trustee company must be independent. It is also important that directors have appropriate knowledge to act for members of a potentially large and complex scheme.

It is the Authority's view that requirements related to the trustee of a DC master trust should be:

- The trustee must be incorporated as a designated activity company with the sole object of carrying on the business of being a trustee of one, and only one named master trust.
- There must be a minimum of two directors of the trustee company. The chair and a majority of the directors must be independent directors. An independent director is defined as a director of the trust who has no interest in the assets of the scheme other than as trustee and is not connected or associated with the shareholder of the trustee company or the service providers to the scheme other than in their capacity as trustee.
- All directors must satisfy the requirements for a qualified trustee or an experienced trustee, subject to there being a minimum of one of each. All directors must be proper.
  - A qualified trustee is one that has completed a course listed on the Authority's website as meeting the requirements.
  - An experienced trustee is one that has been a trustee for at least two of the previous four years.
  - Proper means being of good repute and integrity.
- The Authority must be notified in advance of the appointment of a director to the trustee company. The Authority must be notified of the resignation of a director of the trustee company within 21 days of the resignation.
- The Authority will expect that trustee directors will have an appropriate mix of skills/expertise fitting for the management of the master trust scheme.

3. MASTER TRUST REQUIREMENTS – TRUSTEE

a) In setting out the regulatory requirements for a master trust, there is a risk of focusing solely on the role of the trustee. Good administration will be key for any successful master trust. However, in setting regulations it is important to remember that it is not the trustee's role to directly carry out the administration of the pension scheme. In their oversight role, they need not necessarily be administration experts. Indeed, the consultation paper highlights the need for an appropriate mix of skills and expertise. As such, we are unsure if it will be possible for the Pensions Authority to prepare an exhaustive list of the potential courses or experience which might be appropriate to a particular board member in the context of having a mix of skills and expertise.

b) Currently in Ireland there are only a small number of "independent" corporate trustee companies providing trusteeship (not associated with consultants or Life Offices). These trustees provide a hugely important and independent service to employers and members, in a very cost effective way. Any additional onerous requirements or exclusion of these trustees from acting as trustee to a number of schemes/master trusts will have a negative impact on the support provided to members and employers and damage the market depth.

c) We are unsure of the reason why a trustee company could only act for one named master trust. It would be interesting to know the Pensions Authority's reasoning on this. We could then perhaps comment further?

4 MASTER TRUST REQUIREMENTS – BUSINESS PLANS

The Pensions Authority need to be satisfied about the long-term ability of the master trust to manage the pension savings of members. The purpose of the business plan is to demonstrate the viability of the master trust scheme to the Pensions Authority.

It is the Authority's view that requirements related to business plans for DC master trusts should be:

- Trustees must submit to the Authority a business plan covering a three year period which sets out projections for income and expenditure.
- The business plan must:
  - show projections on at least three distinct bases
  - set out in detail the basis for assumptions used in projections, and
  - demonstrate that the scheme has a reasonable prospect of being viable under all scenarios.
- The business plan provided to the Authority must be sufficiently detailed and comprehensive for the Authority to understand and be satisfied as to its reasonableness and robustness. The Authority will over time pay particular attention to differences between forecasted projections and actual outcomes.
- The trustees must revise and update the business plan every year. The updated business plan must be submitted to the Authority with explanations of the changes made.

4. MASTER TRUST REQUIREMENTS – BUSINESS PLANS

a) Irish Life agrees that master trusts should be capitalised. However, to be clear the capital should come from the sponsor of the master trust (with the proviso the trustees have guaranteed access to it as required). The sponsor-in conjunction with the trustee-should draft the business plan and the trustees should submit it to the Pensions Authority.

b) It is important to consider that the trustee board may not be the administrator, promoter or sponsor of a particular master trust. As such, the submission of a business plan by the Trustees may be primarily in their role of having oversight of the scheme, and having satisfied themselves that the administrator and/or promotor have an appropriate business plan in place.

c) We would urge that the level of depth and detail expected of any business plan be proportionate to the actual level of members in (or expected to be in) the plans on the basis there is considerable costs incurred in the preparation of these plans. The Pensions Authority should be very clear with regard to the expected content and issue a template for consistency.

5 MASTER TRUST REQUIREMENTS – CAPITALISATION

Given their particular nature, it is appropriate that master trusts be required to demonstrate that they have sufficient capital to cover running costs for a period of time and any wind-up costs that might arise. This is to ensure that in the event of the scheme having to wind-up, members can be transferred to another provider/other provision without suffering additional costs.

It is the Authority's view that requirements related to capitalisation for DC master trusts should be:

- The trustee company must be sufficiently capitalised and have access to sufficient additional capital to meet the costs of sustaining the scheme for two years without requiring further capital injection.
- Capitalisation must be based on the maximum needed under the business plan scenarios.
- The trustee must be able to demonstrate proof of capital resources including any conditions attached to those resources. The trustee must satisfy the Pensions Authority that they have access to funds which must be readily accessible and from a credible source.
- The trustee must ensure on an ongoing basis that they continue to be compliant with the capital requirement. Where trustees are in breach of the capital requirement, they must make an immediate report to the Authority.
- The trustee must also satisfy the Authority annually that they continue to be compliant with the capital requirement.

5. MASTER TRUST REQUIREMENTS – CAPITALISATION

a) We agree that the trustees must have access to the capital but suggest that it should be the scheme sponsor/funder that is sufficiently capitalised to provide this on a guaranteed basis (rather than the trustee company itself requiring the capital). The size of such capital should reflect the size of the membership of the MT but also the rating and security of the sponsor. Regulated entities such as Life Insurance companies subject to Solvency 2, should be exempt from this requirement once their solvency is of an adequate level.

6 MASTER TRUST REQUIREMENTS – RISK ASSESSMENT

Under IORP II, all schemes will be required to undertake an Own Risk Assessment. It is the Authority's vie that the risk assessment for DC master trusts must be prepared annually and must take account of risks that are specific to the running of a potentially large multi-employer scheme.

6. MASTER TRUST REQUIREMENTS – RISK ASSESSMENT

a) We agree that a regular assessment of risks is appropriate in the running of a master trust.

b) In the context of a master trust intended to capture one-member insured schemes, the Life Office will carry out a regular own risk assessment. Indeed any administrator worthy of administering a master trust should carry out its own risk assessment, and such an administrator would not be willing to outsource this function to the trustees.

c) As such having the trustees carry out an own risk assessment and the administrator carry out an own risk assessment could result in much duplication, and therefore generate unnecessary costs.

d) The trustee functions do not completely overlap with the administrator, as such it is appropriate that the trustee board assess risks from its point of view. However, in its oversight role it is important that the regulatory requirements on the trustees do not create a duplication of risk assessment and auditing.

e) The regulations dealing with master trust risk assessment should include that the administrator must carry out an appropriate level of own risk assessment of administration functions.

7 MASTER TRUST REQUIREMENTS – CONFLICT OF INTEREST

Master trusts might be run for profit or could have close connections with for profit entities which gives rise to conflicts of interest that are not seen to the same degree in single employer schemes.

It is the Authority's view that the requirements related to conflicts of interest in DC master trusts should be as follows:

- Irrespective of the sponsor or funder, the master trust must be unambiguously run in the best interest of its members.
- Trustees must have a written policy on conflicts of interest that sets out how they will identify, monitor and manage conflicts. There must be documented evidence of compliance with the procedures in that policy.
- Any contractual conditions binding the master trust to particular service providers would be prohibited.
- Trustees must ensure the segregation of assets between the master trust and the scheme or member and that there are robust financial controls in place.

7. MASTER TRUST REQUIREMENTS – CONFLICT OF INTEREST

a) Irish Life thinks that it would be difficult for any sponsor or provider to proceed on this basis and it could severely limit the opportunity to establish master trusts in the market. If the Pensions Authority are of the view that master trusts should cater for the current one-member insured market then this condition could prevent this. For the master trust which Irish Life expects to launch shortly we would expect to be the Registered Administrator of that master trust (or at the very least for us as sponsor to be have to agree to any change in administrator). If our name were associated with the MT-as it would be (eg "the Irish Life Master Trust") we would insist on an ability to ensure standards of our choosing.

   We feel the areas covering independence of trustees already gives strong protections here.

b) The best interests of members must include not only costs, but also quality of service, communication, investment returns and administration, as well as considering the continuation of the scheme in the long-term.

c) Nevertheless, we recognise that all trustees must be cognisant of any conflict of interest and an appropriate conflict of interest policy should be in place and adhered to.

d) We are supportive of the need for full legal separation of accounts.

8 MASTER TRUST REQUIREMENTS – RISK ASSESSMENT

In traditional single employer schemes, the employer is often an important channel of communication between members and trustees. Furthermore, in a master trust, the role of the employer is different than in a traditional scheme and so they will likely have less direct involvement with the trustees.

It is the Authority's view that requirements related to member/employer communications in DC master trusts should be:

- Trustees must have a written policy for engagement with members and employers. The policy must set out in detail the format and frequency of engagement with members and employers. The policy must also contain a commitment to active engagement with members and employers. There must be documented evidence that the policy is being implemented.

- Trustees of master trusts must have arrangements in place to facilitate access to trustees for adhering employers and members. This must include holding an annual meeting to which members and employers should be invited.

8. MASTER TRUST REQUIREMENTS – MEMBER/EMPLOYER COMMUNICATIONS

a) Communication to employers and members should be at the centre of any master trust. A key feature of the master trust should be creating a forum for members & employers to respond and engage in the pension plan on an ongoing basis. With this in mind, it would be very important that technology be used to maximise this communication process. It must also be noted that this communication should be done by the administrator, not by the trustees. The production of certain communications is also dependent on information provided by the employer and/or member. The governance regulations should recognise this. For cost and environmental reasons, paperless communication should be explicitly allowed as standard by the trustees.

b) Holding an annual meeting is an additional option with regards to member communications but Irish Life believe that this point should be 'recommend' rather than 'must' hold an annual meeting for practical cost reasons (or at the very least there be some threshold). We would see any such communications as held at global master trust rather than employer level (as all members are equal regardless of employer). The key requirement should be providing members with the ability to engage in their pension at any point in time.

9 MASTER TRUST REQUIREMENTS – CHARGES TRANSPARENCY

It is particularly important that members and adhering employers can understand the master trust charges and are able to move to another provider if they are not satisfied that they are receiving value for money.

It is the Authority's view that requirements related to charges transparency in DC master trusts should be:

- Trustees must have a written policy specifying:
  - how charges are transparently disclosed,
  - that increases in charges will only be made by giving 12 months' notice to members to allow them or the sponsoring employer to transfer should they so wish before the increase is implemented,
  - that members or prospective members can transfer assets in and out without charge.
- Trustees must maintain documented evidence that the policy is being implemented.

9. MASTER TRUST REQUIREMENTS – CHARGES TRANSPARENCY

a) We agree that charges should be fully transparent. Charges should cover all of the costs of running the master trust including administration, investment, trusteeship, auditing, compliance, marketing and communication.

b) There is a sense generally that master trusts will be a lower cost model – however, with the reporting requirements, extra responsibilities etc. costs could potentially increase rather than decrease. Furthermore, it is important to note that charges could well vary within a MT between different sized schemes (or member contributions/pots etc).

In relation to restrictions on charges for transfer out/in, we cannot say if this is appropriate given that much of the regulation and costs are unknown as this point. In any event, if restrictions are placed on charges for transfers out/in there must still be scope for economic adjustments (such "MVAs" on smooth funds or property fund delays) which can be necessary in order to provide certain funds or investment types.

c) It is not appropriate that the trustees should set a written policy specifying how charges are disclosed. Different trustees will take different approaches, leading to inconsistencies in the disclosure of charges and preventing employers/members from comparisons across the market. The disclosure of charges should be set by legislation. In addition to a common disclosure regime across master trusts, there should also be a common charges disclosure regime across trust based and contract based pensions, to allow customers to compare across the full pensions market. We see this only applying to MTs when it applies to all trust based regimes.

d) We also agree that customers should be able to move to another provider if they are not satisfied. The competition in the market means that it is a normal occurrence for customers move from provider to provider. Similarly, an employer can always remove its employees from a MT and move them to another arrangement (another MT or other form of pension plan). A master trust should not limit this existing flexibility.

10 MASTER TRUST REQUIREMENTS – MARKETING OF THE SCHEME

Trustees of master trusts may not have responsibility for the marketing of the scheme. However, the Authority believe that it is important that they have consented to the materials used which will include information about their scheme.

It is the Authority's view that requirements related to marketing of a DC master trust should be:

- Trustees consent is required for marketing material in relation to the master trust scheme.
- When deciding on whether to give consent trustees should ensure that they are reasonably satisfied that content is not misleading to the reader.

10. MASTER TRUST REQUIREMENTS – MARKETING OF THE SCHEME

a) The requirement that a trustee board should consent to the marketing materials used in relation to a scheme seems excessive if applied to each and every item. For example, there will at times be a thin line between marketing material and information documents. The ability of a provider/administrator to respond quickly should not be limited by the Trustee Board, who will only meet every so often. A master trust website would be an example that could be considered in this context. This will fulfil a number of roles, combining marketing of the scheme with information supports for members and employers. It would not be an appropriate use of a Trustee Boards (valuable) time to review each and every change to a master trust website to give their consent.

b) We fully agree that marketing materials should not be misleading. In this context the Central Bank Consumer Protection Code may be an appropriate standard. It would also ensure consistency across trust based and contract based pensions.

11 MASTER TRUST REQUIREMENTS – NEW MEMBERS

Trustees will have responsibility for preparing a business plan which will outline how the scheme can be expected to grow. With this in mind, it is important that trustees are aware of potential new members and are satisfied that the scheme can provide for them.

It is the Authority's view that trustees must be required to give consent to the enrolment of new members into the DC master trust scheme.

11. MASTER TRUST REQUIREMENTS – NEW MEMBERS

a) We suggest that the scheme funder/sponsor should work with the Trustees to agree on a business plan.

b) We presume that the point regarding trustees providing consent to the enrolment of new members refers to the trustees being allowed to refuse participation to any proposed new employers who will not agree to abide by the processes and controls that are used in the scheme administration. We do not see Trustees needing to approve every (member) new entrant.

c) We also presume that Trustees should be able to refuse to enrol new members if the trust was in wind up.

12 MASTER TRUST REQUIREMENTS – WIND-UP PROCEDURE

Given their potential scale, the wind-up of a master trust could be a significant process.

The Authority considers that the trustees of a master trust must be able to demonstrate that they have an appropriate wind-up procedure in place that protects the interests of members.

It is the Authority's view that requirements related to wind-up procedures in DC master trusts should be:

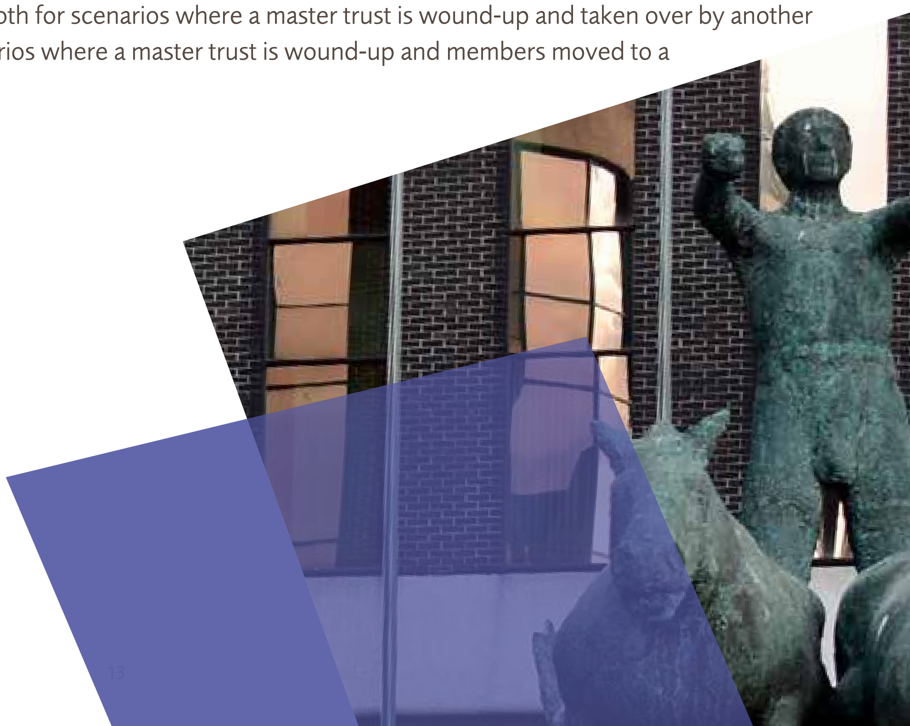
- Trustees must have written procedures that they will implement in the event of wind-up.
- These procedures must be designed to ensure that benefits are transferred efficiently, in a timely manner and without cost to members and beneficiaries.
- Trustees will be expected to ensure that these procedures are kept up to date.

12. MASTER TRUST REQUIREMENTS – WIND-UP PROCEDURE

a) Section 12 covers the wind-up procedure for a master trust. However, the consultation document does not cover off the process for existing schemes wishing to move to a master trust. Currently a scheme needs to fully wind-up to enter a master trust; this process is generally very time consuming and can also be very costly. From a members perspective it can generate some uncertainty because they may have to receive a new member number, a new scheme number and perhaps re-register for any online access that they are already using. The member would also see a transfer value coming into their policy even though the member has not transferred employment. Irish Life would like some consideration to be put into the prospect of a fast-track solution or possibly a reduced lighter process, which includes some form of documentation sign off that proves sufficient to allow the transfer to occur. This could serve the policy objective well.

b) The level of work and cost involved in winding-up a master trust will depend significantly on pension legislation. A wind-up has the potential to be a significant process, or to be relatively easy. There is no reason why the wind-up process for a master trust need be more complex than a process that is currently permitted.

c) We agree that the trustees of a master trust must consider the possibility of a wind-up and how this would be administered. However, it is also important that the regulators consider the possibility of a wind-up, and allow that straightforward procedures exist, both for scenarios where a master trust is wound-up and taken over by another master trust provider, and for scenarios where a master trust is wound-up and members moved to a contract solution.



13 MASTER TRUST REQUIREMENTS – REPORTING TO THE PENSIONS AUTHORITY

Given their potential scale and inherent complexity, the Authority will consider master trusts to be in the highest risk category for supervision and specific reporting requirements will be in place.

The Pensions Authority will define a series of notifiable events. On the occurrence of any of these events, trustees will be required to notify the Authority and provide relevant further information. For example, notifiable events might include:

- a decision to wind-up the master trust, or
- a change of control of the trustee company.

13. MASTER TRUST REQUIREMENTS – REPORTING TO THE PENSIONS AUTHORITY

We agree with the points made in the consultation paper once a MT has reached a certain threshold of lives. We believe applying very onerous requirement on a start-up MT that has a few dozen members is not justified. We agree with the examples above should apply to any MT but would caution a sized-based approach be adopted for others.

OTHER AREAS NOT COVERED ABOVE

Given the complexities of master trusts, we presume that the Pensions Authority will set down minimum requirements for the IT administration systems, processes and capacity of master trusts. We note in the UK codes extensive coverage of these areas.

CONCLUSION

We have responded to this consultation document, as we believe that master trusts have an important role in the future provision of pensions in Ireland for insured one-member schemes and group arrangements. However, Master Trusts should not be burdened with unrealistic expectations.

In considering the appropriate legislative and regulatory framework, it is important that consideration be given to how pensions schemes will actually be structured. The role of the trustee, administrator, investment manager and employer must all be considered and appropriate regulations put in place depending on the responsibilities of each. To simply put all responsibilities on trustees risks two outcomes: one, that trustees will be legally responsible for items over which they have no actual control and, two, that trustees will duplicate work that is also done by another party adding costs which end members will have to bear.

We believe master trusts can play a valid role in the pensions ecosystem. The opportunity is now there to properly define their purpose and operations. Irish Life looks forward to contributing to that process. We would look forward to meeting the Pensions Authority to discuss this response.

Irish Life, February 2019.

Irish Life

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